COUNTY GOVERNMENT STUDY COMMISSION

Legislative Services Agency
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MEETING MINUTES[1]

Meeting Date:	**September 5, 2002**
Meeting Time:	**10:00 A.M.**
Meeting Place:	**State House, 200 W. Washington St., Room 233**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Rep. Peggy Welch, Chairperson; Rep. Tiny Adams; Rep. Thomas Saunders; Sen. Becky Skillman; Sen. Steve Johnson; Sen. Mark Blade; Thomas Rethlake; Richard Jones; Doug Lechner; Kelly M. Thompson; Timothy Skinner; Al Dillon; William Mansard; Otis Cox.**

Members Absent: **Rep. Matthew Whetstone; Sen. Rose Antich; Frank Fritch; Vernon Jewell; Raymond Lueken; Garland Ferrell; Jean Lushin; John Catey.**

At 10:10 am, Chairperson Peggy Welch called to order the first meeting of the County Government Study Commission for the 2002 legislative interim.

Following introductions of the members and Legislative Services Agency staff, Chairperson Welch explained that the Commission has a short time frame to operate this year due to the effects of the 2002 Special Session which produced HEA 1001-2002 (ss). She noted the accomplishment made by the passage of the SJR 12-2002 (P. L. 87-2002) concerning holdover offices which was recommended by the Commission during the 2001 interim. Chairperson Welch asked the Commission's desire to move forward with recommending the resolution for adoption by the General Assembly in 2003. Mr. Al Dillion offered the motion, which was seconded by Representative Tiny Adams. The Commission voted to have the resolution drafted again for consideration.

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[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.ai.org/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

HEA 1001-2002 (ss)

Chairperson Welch then directed the discussion to matters regarding HEA 1001-2002 (ss) and the effect of the legislation on county government. She emphasized the limited time to hear testimony from county officials and that the Commission should look to the future with respect to issues affecting county government's ability to function efficiently. The Chair recognized David Bottorff to make a presentation outlining the effects of HEA 1001-2002 (ss) on the counties.

Mr. David Bottorff, representing Association of Indiana Counties

Mr. Bottorff referenced several handouts (Exhibits A, B, and C). Based on his presentation, Mr. Bottorff explained the following points. Counties are experiencing a cash-flow problem due to changes in the timing of the payment of Property Tax Replacement Credits (PTRC) from the State and the late completion of reassessment.

Mr. Bottorff explained that although HEA 1001-2002 (ss) removed the shelter allowance, assessors will have to "do the job twice" and there will be additional costs due to preparing property tax statements to comply with Sec. 210 of HEA 1001-2002 (ss). (This provision requires that a county treasurer must include on the property tax statements a comparison of the taxpayer's liability after the changes of HEA 1001-2002 (ss) as compared to what the liability would have been had the bill not been passed.)

Mr. Bottorff also elaborated that the collection of information necessary to send to the Department of Local Government Finance in order to certify a tax rate is now more difficult.

Mr. Bottorff discussed the issue regarding the county unit maximum levy growth rate (Exhibit B). He stated that prior to HEA 1001-2002 (ss) the growth rate was based on growth in assessed valuation (AV). Under the new law, the growth rate is driven by the state economy, more specifically non-farm personal income. Personal income growth was low in Indiana, about 2.7% in 2002. Referring to Exhibit B, Mr. Bottorff explained that under the new system, Floyd, LaGrange, Starke, Harrison, Hamilton, and Hendricks Counties would be able to appeal to receive an additional growth factor above 4.8%. Under the old system, Floyd County, in particular, would not have to appeal to receive an additional growth rate. He stated that counties that qualify for a higher levy should be able to do so without the appeal process.

Mr. Bottorff also noted the greater dependence county government has on the State due to HEA 1001-2002 (ss) and explained the problems created by the PTRF delay payments. School corporations who had asked for an advance in May under the old PTRC payment schedule can no longer do so under the new payment plan from HEA 1001-2002 (ss). He indicated this could lead to increased borrowing by school corporations.

Senator Mark Blade asked Mr. Bottorff how to resolve the problem with the Section 210 provision and whether it should be eliminated. Mr. Bottorff replied that the way that Section 210 was worded would be tough for county government to accomplish in a timely manner. Senator Blade asked if sending more money to local government would help the problem. Mr. Bottorff replied that it would be beneficial to receive funding for the cost of processing the additional tax statement.

Following this discussion, Chairperson Welch brought to the attention of the Commission an editorial written by the Indianapolis Star concerning the issue. Further discussion ensued.

Vice Chairperson Skillman indicated that in the past she had argued for more local flexibility in the use of revenue sharing funds from the wagering tax increase, especially in the area of police and fire pension funding.

Mr. Bottorff also indicated that gaming revenue shared by counties could also be used for TIF replacement and property tax replacement. He also replied that the AIC was keeping up with the needs of the counties concerning economic development.

Following the discussion with Mr. Bottorff, Chairperson Welch recognized Mr. Paul Ricketts.

Mr. Paul Ricketts: Lawrence Township Assessor representing the Marion County Township Assessors Association

Mr. Ricketts applauded the General Assembly for their efforts in deflecting property tax rate increases with HEA 1001-2002 (ss). He stated that instead of facing an increase of 33% in Marion County, there would only be a 20% increase.

Mr. Ricketts reported that Marion County would be lucky to have abstracts out in time. He asked if the Commission would consider an escape clause for 2003 due to the inability to comply within 9 months what usually takes 20 months. He also indicated that Marion County may be close to sending notices to taxpayers within three months, but that it depended on the cash flow of the county. Mr. Ricketts indicated they probably would not get certification of tax rates from the Department of Local Government Finance in time.

With respect to costs associated with HEA 1001-2002 (ss), Mr. Ricketts reported that the cost to Marion County for computer and software updates, etc., has been $200,000. He said there was not enough time to reprogram the software to calculate the two tax rates required by law.

Chairperson Welch thanked Mr. Ricketts and next recognized Mr. Barry Woodard.

Mr. Barry Woodard, Washington Township Assessor

Mr. Woodard agreed with the comments made by Mr. Ricketts. Chairperson Welch asked how the changes in HEA 1001-2002 (ss) would impact the assessor's office. Mr. Woodard answered that the impact to property tax changes could impact staffing levels of assessors depending on the longevity of the changes. He indicated that removing inventory property taxes could be offset by changes in tangible personal property taxes as far as staff requirements were concerned. He concluded that changes to the assessor's office would depend on the workload generated by the requirements of HEA 1001-2002 (ss).

Mr. Al Dillon asked Mr. Woodard how the average taxpayer could know how their tax is calculated. Mr. Woodard responded that the taxpayer cares more about the amount of the tax compared to previous years than how the tax is figured.

Following the conclusion of Mr. Woodard's testimony, the Chair recognized Mr. Steve Buschmann to testify.

Mr. Steve Buschmann, representing the Indiana Township Association (ITA)

Mr. Buschmann presented a letter to the Commission outlining the concerns to the townships generated by HEA 1001-2002 (ss) (Exhibit D). He indicated the changes in the growth quotients for the maximum levy (moving from local determination of growth to state figures) was problematic for townships. He also indicated approval from ITA members of removal of the shelter allowance. Mr. Buschmann touched on the subjects of inventory and business personal property taxes. He also mentioned that even though there are credits, deductions, and/or exemptions allowed for church buildings, assessors must still assess such properties. However, he stated, it is apparent that they are not assessed regularly. Mr. Buschmann suggested that these properties be excluded from the property tax system, which would relieve some of the burden of assessment from the assessors.

With respect to riverboat gaming revenue sharing, Mr. Buschmann explained that townships are confused over the use of some of that revenue for fire protection. However, he is concerned that that is not how the new law reads; rather, the new funds are intended for fire pensions. He recommended revising the limitations on the use of revenue sharing funds generated by gaming.

Chairperson Welch next recognized Ms. Nancy Marsh from Hendricks County.

Ms. Nancy Marsh, Hendricks County Auditor

Ms. Marsh distributed a handout (Exhibit E) which listed several data items by county including 2002 maximum levy and population. Referring to the handout, she compared Hendricks County and Vigo County as being of similar population, but indicated Vigo was allowed twice as much maximum levy than Hendricks in 2002. With the growing demands for county funds, Ms. Marsh said that Hendricks County is stretched to the limit and would like to be able to comply with HEA 1001-2002 (ss), Sec. 210, but they do not have the funds to do so. She stated that programming costs are very high. For example, it cost $32,000 in programing costs to widen the fields on the tax bill. She stated that she had ten employees working two weeks in order to send tax bills, and this did not include those sent to mortgage companies originally. Ms. Marsh estimates that roughly 40% of bills were sent directly to a mortgage company. Ms. Marsh added that sending the tax bills to the taxpayers in addition to their mortgage company would be costly due to additional postage costs and employee time spent processing bills.

Ms. Marsh stated that market values in Hendricks County are very high. In some instances AV is tripling in older homes.

Ms. Marsh also indicated that the lack of having a homestead credit on file could cost taxpayers a thousand dollars or more, which could lead to taxpayers becoming upset. She indicated she would like more security at the auditor's office in preparation for irate taxpayers. With respect to PTRC, Ms. Marsh said that the state had advised Hendricks County in the past to not eat into the operating balance, but the county has had no choice.

Ms. Marsh continued with respect to the gaming revenue sharing restrictions. She stated she would like to see the 20% restriction for other spending items removed.

Ms. Marsh questioned the total certified distribution that the county received in local option income taxes for the year. She understood with a weaker economy, the distribution would be lower. However, she added that the State Budget Agency certified $1.9 M less in CAGIT to Hendricks County than last year.

Chairperson Welch asked Ms. Marsh to formally send a letter to the Commission outlining the disparity in CAGIT revenue.

Ms. Judy Sharp, Monroe County Assessor

The Chair recognized Ms. Judy Sharp from Monroe County. Ms. Sharp stated that counties must calculate thousands of individual property tax returns. She stated Monroe County went through thousands of additional forms in one month for a cost of $1,000 in extra postage expense which the county has been able to absorb this year. She also described additional software costs that will affect the county.

Ms. Sharp continued by saying that Monroe County is not currently running a duplicate software system for calculating the old rates, but is calculating new rates only. She indicated the existing software system would be problematic for complying with notifying taxpayers of both rates.

Ms. Sharp also described the Monroe County financial picture as “broke.” She indicated that the county does not get the advantage of growth as other counties do, but that Monroe County has experienced an increase in population. She suggested relaxing the riverboat revenue sharing restrictions. Ms. Sharp stated funds are really needed to re-computerize, not for fire pensions.

Mr. Greg Jordan, Marion County Treasurer and President of the County Treasurer’s Association

Mr. Jordan discussed the results of a survey sent to county treasurers concerning the individual property tax statement requirements of HEA 1001-2002 (ss). The survey had an 82% response rate. Mr. Jordan said it would be difficult for county treasurers to comply with the new law. He stated approximately half of the tax bills processed go directly to mortgage companies.

Mr. Jordan also testified about the computer systems in counties. In many counties, Mr. Jordan said the Manitron systems used are not capable of being reprogrammed to accommodate the changes, and that these counties cannot afford new software to comply.

Without approval of new forms or some state intervention, Mr. Jordan concluded that counties have no room to place the additional tax information now required by law on existing tax forms.

Mr. Richard Jones added after Mr. Jordan’s testimony that many county treasurers do not maintain the address records of taxpayers in order to send the required mailings to the taxpayer instead of the mortgagers.

Mr. Ed Kearner, Jackson County Council member, spoke briefly on lack of software funding.

Chairperson Welch summed up the testimony by saying it was the intent of the General Assembly to put together the best tax bill given the limited amount of time to do so. She stated that the bill has had unintended consequences to county and township government. She believed that it was the intent of the General Assembly to explain to the taxpayers that the 1% increase in sales tax would reduce the growth of their property taxes.

Senator Steve Johnson

Chairperson Welch recognized Senator Steve Johnson. Senator Johnson agreed with the Chair’s comments that HEA 1001-2002 (ss) has unintended consequences to local government. He said the process of tax restructuring tried to inform the public what was being done. He stated that throughout the process, the public cry has been where did the surplus go. Senator Johnson explained that the state had given some of it back in the form of tax credits and deductions totaling $1 B in the late 1990's. He said that the taxpayer did not realize or feel these cuts in their taxes. From revised revenue forecasts, Senator Johnson said an additional $1.3 B or so did not show up in state revenues. He mentioned the process that produced HEA 1001-2002 (ss) tried to balance the tax system between the state and local governments.

Senator Johnson then spoke on the effects of the pending baby boomer generation retirement in ten plus years and its impact on federal government expenditures for retirement and health programs. He predicted that a shift in the responsibility to pay for much of these expenses will be placed on state government. In return, he believed the expenses will be further shifted in part to local government. He said, currently, local governments are in the process of continually figuring ways to increase AV. Therefore, economic development is the main issue. Senator Johnson described that in ten years, AV will be the least of concerns of local government and, instead, the greatest concerns will be the funding of health and retirement costs of the retiring baby boomer generation. He stressed that local governments and their respective associations need to come together now and try to figure out what to do about funding these costs in the future.

Chairperson Welch agreed with Senator Johnson and stated that his testimony falls in line with what the Commission is trying to accomplish: finding ways to make county government more efficient. She stated that her mission in chairing the Commission is to see that goal achieved. She concluded by saying local government testimony had a common theme and the Commission needs to address those concerns.

Chairperson Welch then recognized Representative Tiny Adams. Representative Adams suggested that the Commission must find ways to help local governments with their concerns. He said the Commission should pick out three or four of the issues mentioned and introduce legislation to correct them in the upcoming legislative session.

Chairperson Welch mentioned that the Commission should also determine if these issues were being considered by the Commission on State Tax and Financing Policy. She noted that the Commission on State Tax and Financing Policy will meet September 19, 2002.

At this time Chairperson Welch opened the meeting for comment and discussion of the morning's testimony.

Mr. Al Dillon stated that local governments need help in the areas described by testimony and suggested the Commission recommend legislation to correct the situation.

Mr. Richard Jones stated that Section 210 of HEA 1001-2002 (ss) should be repealed, and the distribution of riverboat revenue should be adjusted. He also expressed a desire to stop unfunded mandates on local government.

Representative Thomas Saunders also agreed that there were unintentional consequences to the passage of HEA 1001-2002 (ss). He stated that the state should recognize local budget limitations and give county government the right to spend their share of riverboat revenues as they see fit.

He also stated that the current system of state-mandated probation officer pay raises in lieu of other county officials should be a local issue. Representative Saunders said if the state requires probation officers to receive guaranteed pay raises, then the state should fund those raises.

Ms. Kelly Thompson agreed with the comment made by Mr. Bottorff to have faith in local units. She stated that Cass County has not given a raise above $500 in the last six years. She said that the county brought in an efficiency expert who concluded that a 3-5% raise was not feasible. The county can not use some revenue due to restrictions.

Ms. Thompson also indicated that Sec. 210 of HEA 1001-2002 (ss) is an example of an unfunded mandate on local government, and stressed the need for a more efficient way to provide notification and tax statements to taxpayers.

Representative Saunders stressed the importance of educating the public on their property taxes, specifically showing why the taxes are computed the way they are. He stated that the public does not mind paying the tax, but they only want to pay their fair share. He provided an example of two houses of similar size and age where one pays more tax than the other.

Mr. Richard Jones reiterated that the process of notifying taxpayers directly when their statements are sent to a mortgage company has presented new difficulties to county treasurers. He also stressed that county jails should be funded outside the maximum levy.

Chairperson Welch asked the Legislative Services Agency to draft legislation for the Commission to review that would eliminate Sec 210 of HEA 1001-2002 (ss) and address the percentage of riverboat revenue sharing. She also asked for formal letters from those who testified before the Commission.

Vice Chairperson Skillman listed the 100% success rate of legislation recommended to the General Assembly by the Commission in 2001. She specifically mentioned the success of the local government PERF vesting issue being passed into law.

Chairperson Welch suggested that in order to accomplish the goals of the Commission, leaders of local government may need to meet and hash out their concerns and send them directly to the legislature. Representative Welch stated that California has approximately 50 counties, whereas Indiana has 92 counties with several layers of government below the county level. She stressed that she wants to see the charge of the Commission fulfilled.

Vice Chairperson Skillman agreed that Indiana has an extreme amount of government. In response to comments made by Mr. Doug Lechner concerning the origins of local government in Indiana, Senator Skillman indicated that the Commission had discussed several solutions for greater efficiency, including charter government, and had explored the role of local government in Indiana.

Chairperson Welch extended a moment of appreciation to Senator Blade and Senator Johnson, thanking them for their service to the County Government Study Commission. She appreciated working with them on various issues. She asked the Commission and the public in attendance to join with her in applauding their service.

With no further business before the Commission, Chairperson Welch set the next meeting for October 3, 2002, at 10:00 am. The meeting adjourned at 12:20 pm.